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ORIGINAL



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November 11, 1997

FEDERAL EXPRESS

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Docket No. 97-00888, Universal Service Generic Contested Case

Dear Mr. Waddell:

Enclosed herewith are the original and 13 copies each of the following filings in the above-styled matter:

- (1) The Citizens Local Exchange Carriers Brief Addressing Phase 1 Non-Cost Issues;
- and
- (2) The Citizens Local Exchange Carriers written direct testimony in Phase I of this proceeding.

An extra copy of these filings is included for date stamping and return in the enclosed, postage prepaid envelope.

A certificate of service for the two documents is included with this letter.

Yours very truly,

A handwritten signature in black ink, appearing to read "RM Tettelbaum", written over a horizontal line.

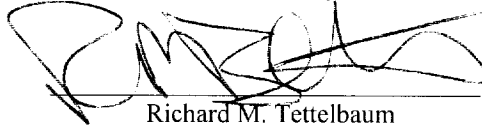
Richard M. Tettelbaum

cc (w/encl.):

Parties of Record
Amy Gilchrist
Donald Innes
J. Michael Swatts

CERTIFICATE OF SERVICE

I, Richard M. Tettelbaum, hereby certify that a true and exact copy of "The Citizens Local Exchange Carriers Brief Addressing Phase 1 Non-Cost Issues" and the Citizens Local Exchange Carriers written direct testimony has been served on counsel of record and other interested parties via First Class Mail postage prepaid, this 11th day of November 1997.



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**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In Re:)	
)	
Universal Service Generic Contested Case)	Docket No.
)	97-00888

**THE CITIZENS LOCAL EXCHANGE CARRIERS BRIEF ADDRESSING
PHASE 1 NON-COST ISSUES**

Citizens Telecommunications Company of Tennessee, LLC and Citizens Telecommunications Company of the Volunteer State, (collectively referred to as the “Citizens LECs”), by their attorney, pursuant to the final issues list and Phase 1 schedule issued by the Tennessee Regulatory Authority on October 31, 1997 (the “October 31 Order”), hereby submit their Brief and show as follows:

Introduction

Consistent with their execution of the Stipulation Of Parties Of Issues To Be Briefed (the “Briefing Stipulation”), the Citizens LECs’ Brief addresses issue numbers 2, 3, 4, 6, 10, 11, 12, 13, 14 and 15, as listed in the final issues list in the October 31 Order. This Brief will follow the format and numbering conventions used in the October 31 Order’s listing of issues. Each issue enumerated in the Briefing Stipulation is reproduced verbatim herein, single spaced and in bold face type.

The Citizens LECs are also a party to the Agreed Statement of Stipulations and Contested Issues filed on October 29, 1997 (the “Issues Stipulation”). In those instances in this Brief where the Issues Stipulation addresses a substantive issue specified in the Briefing Stipulation, the Citizens LECs will so indicate.

Briefing Stipulation Issues

Issue 2

2. Will all carriers be able to provide all elements of universal service?

Covered by Issues Stipulation, which reads,

The TRA has authority to certify telecommunications service providers in Tennessee as “Eligible Telecommunications Carriers (ETC)” based on the Federal requirements outlined in Section 214(e)(1). The FCC does allow an exception to these requirements. (FCC’s Rules §54.101(c)). Upon petition to the TRA, a carrier incapable of providing single party service, E-911, or toll limitation services may receive Federal universal service support for a grace period for completion of network upgrades to provide these components. The TRA should also adopt this exception for intrastate universal service support.

2.a. How should the TRA address “exceptional circumstances?”

Covered by Issues Stipulation, which reads, “The FCC Rules should be followed for addressing “exceptional circumstances. (See response above).”

Issue 3

3. What carriers/providers are eligible to receive support?

Covered by Issues Stipulation, which reads, “At a minimum, any carrier who can demonstrate compliance with the requirements of Section 214(e)(1) of the Act is eligible to receive support.”

3.a. What procedures should the TRA use for designating ETC?

Covered by Issues Stipulation, which reads,

Carriers should file a motion (as the TRA has requested in this docket) or a petition (for those carriers requesting designation as an ETC in the future) with the TRA for its approval. The TRA must ensure that the ETC at minimum has met the requirements in Section 214(e)(1). Section 214(e) does not prohibit a state from establishing additional criteria for designation of ETCs in connection with the states Universal Service Fund, consistent with Section 254(f).

3.b. Should those companies not under TRA authority be designated as an ETC?

Covered by Issues Stipulation, which reads, “Yes, if a company is eligible for designation as an ETC and is willing to comply with the TRA’s procedures, rules, and regulations governing universal service administration.”

3.c. Should the TRA adopt the Federal advertising deadline?

Covered by Issues Stipulation, which reads, “Yes, the TRA should adopt the Federal advertising guidelines as set forth in Section 214(e)(1)(b).”

3.d. Should the TRA adopt the Federal facilities requirements?

No stipulation was reached on this issue in the Issues Stipulation.

The Citizens LECs believe that the TRA should adopt the Federal facilities requirements, as stated in Section 54.201(d) of the FCC’s Rules. A copy of Section 54.201 is appended to this Brief as Attachment 1. The TRA’s attention is drawn to Section 54.201(e), which defines “facilities” as “any physical components of the telecommunications network that are used in the transmission or routing of” supported services. The Citizens LECs believe that an ETC applicant must have substantial facilities, either owned or acquired as unbundled network elements (*see* Section 54.201(f)). The operation of *de minimis* facilities, such as an operator services platform, coupled with resale of all other services should not, as the FCC implied in an unfortunate and infamous part of the underlying rulemaking proceeding, be sufficient to meet the ETC facilities requirement. The question of what are “substantial facilities” for ETC qualification will be an issue of fact in individual certification proceedings.

3.e. Must a carrier participate in this proceeding to be eligible for designation as an ETC?

Covered by Issues Stipulation, which reads, “No.”

3.f. What procedure is necessary to ensure that rural carriers satisfy notice of status requirement?

Covered by Issues Stipulation, which reads, “No procedure is necessary. If a rural carrier does not apply for rural carrier status, such status will not be conferred.”

Issue 4

4. Define carrier of last resort designation.

Covered by Issues Stipulation, which reads, “At a minimum, ‘carrier of last resort’ should reflect the Federal definition of ‘eligible telecommunications carrier.’ ”

4.a. Is this term still relevant?

Covered by Issues Stipulation, which reads, “No, not in the context of this proceeding.”

4.b. If so, how do we designate?

Covered by Issues Stipulation, which reads, “Not applicable.”

4.c. Can a carrier of last resort withdraw service and if so how?

Covered by Issues Stipulation, which reads, “The TRA should implement the Federal Rules (§54.205) regarding ETC withdrawal of service.”

Issue 6

6. What carriers/providers must provide support under a Tennessee universal service system?

Covered by Issues Stipulation, which reads, “Section 254(f) of the Act requires ‘Every telecommunications carrier that provides intrastate telecommunications services shall contribute . . . to the preservation and advancement of universal service in that state.’ ”

6.a. Define telecommunications carrier. Is the TRA requirement to use the Federal definition?

Covered by Issues Stipulation, which reads, “Yes. The TRA must adopt the Federal definition as set forth in Section 3(a)(49) of the Act.”

6.b. Does state or Federal law require contributions or participation from carriers not under TRA authority?

Covered by Issues Stipulation, which reads, “Yes.”

Issue 10

10. How should the TRA determine the basis for support for “low income consumers?”

Covered by Issues Stipulation, which reads, “See Stipulations in Items 10(a)-(c).”

10.a. Should the TRA change its existing Lifeline program?

Covered by Issues Stipulation, which reads,

Yes. The TRA should notify the FCC of its approval of the additional \$3.50 reduction in intrastate Lifeline rates provided by the additional Federal support amount set forth in the FCC’s Order in CC Docket No. 96-45, adopted May 7, 1997.

Eligible telecommunications carriers must comply with the requirements of the Federal Lifeline program and the low income eligibility requirements set forth by the TRA.

10.b. What standards and procedures should be adopted to address waiver requirements to the no-disconnect rule?

Covered by Issues Stipulation, which reads, “The TRA should adopt the waiver requirements set forth in FCC Rules Section 54.401(b)(1).”

10.c. What funding mechanism should be adopted to fund Lifeline and Linkup?

Covered by Issues Stipulation, which reads,

In addition to the federal funding mechanism for Lifeline and Link-up programs, an explicit state funding mechanism should be established for TRA mandated reductions in end-user charges not funded from Federal sources. State funding

could come from a general tax credit for ETCs participating in the programs, an explicit surcharge on end-user bills or an explicit intrastate fund for Lifeline support.

Issue 11

11. What support in addition to the Federal support already adopted by the TRA should be provided to schools and libraries?

Partially covered by Issues Stipulation, which reads, “TCA §65-5-208(a)(1) requires pre-existing state discounts for schools and libraries be continued. However, the Parties agree that no additional state support should be implemented.”

A contested issue remains: “Is an explicit support mechanism necessary for existing state educational discounts?” The Citizens LECs believe the answer to this question is in the affirmative. To hold otherwise would violate the principles of competitive neutrality and elimination of implicit subsidization of universal service.

11.a. The TRA should state specifically what discounts are available in Tennessee and at what levels.

Covered by Issues Stipulation, which reads, “The Parties agree that the TRA should specifically identify all school and library discounts available in Tennessee and the level for each.”

11.b. How does the TRA address pre-discount price complaints?

Covered by Issues Stipulation, which reads, “The existing complaint procedures should be followed with regard to any type of universal service complaint including but not limited to pre-discount complaints.

Issue 12**12. What support should be provided to health care providers?**

Covered by Issues Stipulation, which reads, “See Stipulation to Issue 12(a) below.”

12.a. Should the TRA provide support in addition to that provided for by the Act and the FCC?

Covered by Issues Stipulation, which reads, “No.”

12.b. If so, who should pay for it and how?

Covered by Issues Stipulation, which reads, “Not applicable.”

Issue 13**13. How should the TRA monitor provision of the supported service to determine if support is being used as intended until competition develops?**

Covered by Issues Stipulation, which reads, “The TRA should continue to monitor the quality of service provided by ETCs until there are two or more ETCs offering services in a given service area.”

13.a. Does the TRA need cost allocation rules or accounting safeguards to determine that services supported do not bear more than a reasonable share of joint and common cost or otherwise unnecessarily subsidize a service?

Covered by Issues Stipulation, which reads, “No. Once universal service joint and common costs are determined in Phase II of this proceeding, cost allocation rules and accounting safeguards would be unnecessary.”

Issue 14**14. Are any changes in state laws or rules needed?**

Covered by Issues Stipulation, which reads, “See Stipulations to 14(a) through 14(e).”

14.a. Is there a conflict between federal statute provision that universal service support should be explicit and the Tennessee statute requirement?

Covered by Issues Stipulation, which reads, “No. The TRA should develop an explicit mechanism for universal service support.”

14.b. How does the TRA reconcile state universal service statute with federal statute on “sufficient” universal service funding?

Covered by Issues Stipulation, which reads, “No reconciliation is necessary as there is no conflict between the statutes.”

14.c. Will rules have to be changed to allow various regulatory schemes to provide for recovery of any universal service contributions?

Covered by Issues Stipulation, which reads, “At this time, the Parties do not anticipate any changes to the rules, but future developments may warrant further review of this issue.”

14.d. Will rules have to be changed to allow transition for carriers operating under various regulatory schemes?

Covered by Issues Stipulation, which reads, “At this time, the Parties do not anticipate any changes to the rules, but future developments may warrant further review of this issue.”

14.e. If legislation is needed to appoint third party administrator it must be obtained.

Covered by Issues Stipulation, which reads,

No. The provisions of TCA §65-5-207 convey broad authority to the TRA to create the appropriate universal service support mechanism. This enabling provision includes the authority to identify a third party administrator and to promulgate rules and regulations for the delegation of management responsibilities.

Issue 15**15. Should the access charge reform issues be incorporated into the schedule addressing Phase II of the universal service proceeding?**

No stipulation was reached in the Issues Stipulation.

The Citizens LECs believe that access reform is properly addressed only after the costs of providing universal service are identified and an explicit funding scheme created. Only then is it appropriate or even possible to address the "unloading" of any implicit subsidies from access charges. Accordingly, access reform must move on a separate and distinct track from universal service, that follows completion of the universal service proceeding.

Respectfully submitted,

CITIZENS TELECOMMUNICATIONS
COMPANY OF TENNESSEE, LLC
and
CITIZENS TELECOMMUNICATIONS
COMPANY OF THE VOLUNTEER STATE, LLC

By: 

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November 11, 1997

Attachment 1

§54.201 Designation of eligible telecommunications carriers, generally.

(a) Carriers eligible to receive support.

(1) Beginning January 1, 1998, only eligible telecommunications carriers designated under paragraphs (b) through (d) of this section shall receive universal service support distributed pursuant to Part 36 and Part 69 of this chapter, and Subparts D and E of this part.

(2) Only eligible telecommunications carriers designated under paragraphs (b) through (d) of this section shall receive universal service support distributed pursuant to Subpart G of this part. This paragraph does not apply to support distributed pursuant to §54.621(a).

(3) This paragraph does not apply to support distributed pursuant to Subpart F of this part.

(b) A state commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (d) of this section as an eligible telecommunications carrier for a service area designated by the state commission.

(c) Upon request and consistent with the public interest, convenience, and necessity, the state commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the state commission, so long as each additional requesting carrier meets the requirements of paragraph (d) of this section. Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the state commission shall find that the designation is in the public interest.

(d) A common carrier designated as an eligible telecommunications carrier under this section shall be eligible to receive universal service support in accordance with Section 254 of the Act and shall, throughout the service area for which the designation is received:

(1) Offer the services that are supported by federal universal service support mechanisms under Subpart B of this part and Section 254(c) of the Act, either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and

(2) Advertise the availability of such services and the charges therefore using media of general distribution.

(e) For the purposes of this section, the term facilities means any physical components of the telecommunications network that are used in the transmission or routing of the services that are designated for support pursuant to Subpart B of this part.

(f) For the purposes of this section, the term "own facilities" includes, but is not limited to, facilities obtained as unbundled network elements pursuant to Part 51 of this chapter, provided that such facilities meet the definition of the term "facilities" under this subpart.

(g) A state commission shall not require a common carrier, in order to satisfy the requirements of paragraph (d)(1) of this section, to use facilities that are located within the relevant service area, as long as the carrier uses facilities to provide the services designated for support pursuant to Subpart B of this part within the service area.

(h) A state commission shall designate a common carrier that meets the requirements of this section as an eligible telecommunications carrier irrespective of the technology used by such carrier.

(i) A state commission shall not designate as an eligible telecommunications carrier a telecommunications carrier that offers the services supported by federal universal service support mechanisms exclusively through the resale of another carrier's services.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In Re:

Universal Service Generic Contested Case

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Docket No.
97-00888

TESTIMONY OF AMY GILCHRIST
DIRECTOR OF POLICY AND COMPLIANCE
CITIZENS UTILITIES COMPANY-COMMUNICATIONS SECTOR

1 Q. Please state your name, title and business address.

2 A. My name is Amy Gilchrist. I am employed by Citizens Utilities Company
3 (hereinafter referred to as "CUC") as Director of Policy and Compliance for the
4 Communications Sector. My business address is 3 High Ridge Park, Stamford,
5 Connecticut 06905. CUC is the parent company of Citizens Telecommunications
6 Company of Tennessee, LLC and Citizens Telecommunications Company of the
7 Volunteer State, LLC, our two local exchange carriers in Tennessee, which I will
8 refer to throughout my testimony as the "Citizens LECs."

9
10 Q. What are the Citizens LECs?

11 A. The Citizens LECs are our two incumbent local exchange telephone carriers
12 operating in Tennessee. Both are "rural telephone companies" as defined in
13 Section 3(47) of the Communications Act of 1934, as amended.

14
15 Q. Please state your educational background and experience in the
16 telecommunications industry.

1 A. I graduated summa cum laude from the State University of New York, Utica
2 College of Technology with a Bachelor of Science degree in
3 Telecommunications. I began working in telecommunications in 1973 with Byers
4 Engineering Company in their engineering and records department doing
5 consulting for many of the Bell telephone companies. In 1979, I accepted a job
6 with Continental Telephone Company of New York and moved to various
7 positions within their Engineering Department until the company merged with
8 GTE in 1991 when I accepted a position in GTE's Regulatory Department where
9 I was the Manager of Exchange Carrier Operations. In May 1994, I joined CUC
10 as State Regulatory Manager for the North Region. I assumed my current
11 position in September 1997.

12
13 Q. What are your responsibilities as Director of Policy and Compliance?

14 A. As Director of Policy and Compliance, I am responsible for directing the
15 development of policy for CUC's local exchange and long distance
16 telecommunications operations including Citizens Telecommunications Company
17 of Tennessee and Citizens Telecommunications of the Volunteer State
18 (hereinafter referred to as "Citizens" or the "Company") . My responsibilities
19 also include directing the implementation of all regulatory initiatives and state
20 and federal mandates to assure compliance with rules and regulations.

21
22 Q. Please explain briefly the business components of Citizens Utilities Company.

1 A. CUC is engaged in all facets of the telecommunications business. CUC currently
2 has local exchange operations in 12 states operating under the Citizens
3 Communications trade name. Citizens' long distance subsidiary, Citizens
4 Telecommunications Company, is currently certified to provide interstate,
5 intrastate interLATA and intrastate intraLATA long distance services in 48 states.
6 In addition, CUC owns a competitive access provider, Electric Lightwave
7 Incorporated, which currently provides competitive telecommunications services
8 in several western states.

9
10 Q. What is the purpose of your testimony?

11 A. On October 29, 1997 ten of the parties of record in this proceeding, including the
12 Citizens LECs, submitted a Statement Of Stipulations And Contested Issues to the
13 Tennessee Regulatory Authority ("TRA") in Phase I of this proceeding. I will
14 refer to this document as the "Issues Stipulation." In addition, many parties,
15 including the Citizens LECs, have executed and submitted to the TRA a
16 Stipulation Of The Parties Of Issues To Be Briefed. I will refer to this latter
17 document as the "Briefing Stipulation."

18
19 The purpose of my testimony today is to place on the record Citizens' positions
20 on some of the issues that were not stipulated to in the Issues Stipulation. The
21 issues addressed in the Briefing Stipulation are addressed in our separately filed

1 brief in this proceeding. In a few instances, my testimony will repeat positions
2 taken in our separately filed brief.

3 **Discussion of Contested Issues**

4 Q. Ms. Gilchrist, the series of questions that I am about to ask you will refer to the
5 Phase I Non-Cost issues, enumerated by number, in the TRA's list of universal
6 service issues served on October 31, 1997. Have you reviewed that issues list,
7 along with the Issues Stipulation and the Briefing Stipulation?

8 A. Yes, I have.

9 **Issue 1**

10 Q. Issue 1 pertains to defining and determining what services should be supported by
11 a Tennessee universal service fund. I note that the only item in Issue 1 that was
12 not stipulated to in the Issues Stipulation is the question: "[s]hould secondary
13 residential lines and/or single lines for business receive support from the universal
14 service support system?" What is the position of the Citizens LECs on this sub-
15 issue?

16 A. The Citizens LECs do not believe the list of ten services specified in response to
17 Issue 1 in the Issues Stipulation should be expanded to include secondary
18 residential lines or any type of business service. It is our position that only basic
19 residential service in high cost areas, where tariffed rates exceed a TRA
20 determined level of affordability, warrant universal service system support..
21 Support for discretionary, non-basic residential services or business lines is

1 inappropriate and will present an extreme burden upon universal service funding
2 as a whole.

3 Issue 3

4 Q. In the Issues Stipulation, the parties were not able to reach agreement on the
5 following Issue 3.a. question: “What, if any, additional criteria should the state
6 establish for designation of ETCs?” How do the Citizens LECs respond to this
7 question?

8 A. The Citizens LECs do not believe that any criteria, in addition to those
9 established by the FCC in its Rules, are necessary or appropriate for state
10 designation of ETCs.

11
12 Q. The parties to the Issues Stipulation also could not reach agreement on Issue 3.d.,
13 which asks, “[s]hould the TRA adopt the Federal facilities requirements?” How
14 do the Citizens LECs respond to this question?

15 A. I will repeat the response we provided in our brief to this question. That response
16 is,

17 The Citizens LECs believe that the TRA should adopt the Federal
18 facilities requirements, as stated in Section 54.201(d) of the FCC’s Rules
19 The TRA’s attention is drawn to Section 54.201(e), which defines
20 “facilities” as “any physical components of the telecommunications
21 network that are used in the transmission or routing of” supported
22 services. The Citizens LECs believe that an ETC applicant must have
23 substantial facilities, either owned or acquired as unbundled network
24 elements (*see* Section 54.201(f)). The operation of *de minimis* facilities,
25 such as an operator services platform, coupled with resale of all other
26 services should not, as the FCC implied in an unfortunate and infamous
27 part of the underlying rulemaking proceeding, be sufficient to meet the
28 ETC facilities requirement. The question of what are “substantial

1 facilities” for ETC qualification will be an issue of fact in individual
2 certification proceedings.

3
4 Simply put, we believe that it would be inappropriate for a carrier to receive
5 universal service funding without making a meaningful investment in deploying
6 facilities in a service area.

7 Issue 5

8 Q. The parties to the Issues Stipulation agreed in Issue 5.b. that “[f]or rural
9 incumbent carriers, the ETC and the service area (or FCC-designated study areas)
10 are the same. For non-rural carriers, ETC and service area are the same if the
11 service area is no larger than a wire center.” The parties to the Issues Stipulation
12 could not agree to an answer to the following sub-issue: “[s]hould service areas
13 for CLECs applying for ETC status in a rural area be defined as only the
14 contiguous service areas of the rural LEC?” How do the Citizens LECs respond
15 to this sub-issue?

16 A. We do not disagree with the concept inherent in the question. Requiring a CLEC
17 to adopt the entire service area of the incumbent rural LEC, if not geographically
18 contiguous, could be viewed as a barrier to entry into rural markets. CLECs
19 should be allowed to adopt service areas of their own design. However, it should
20 be noted that the study area disaggregation inherent in this concept suggests an
21 element of potential unfairness because the CLEC could, in theory, “pick off” a
22 contiguous portion of the underlying incumbent LEC’s study area that, if viewed
23 in isolation from the rest of the area is relatively low cost to serve. If this

1 happened, the CLEC might be able to claim funding based upon higher
2 incumbent LEC costs reflecting the costs of serving the entire study area.

3 The answer to the potential problem I just described may be to require the CLEC
4 to file a funding proposal based upon its own costs and the demographics and
5 economic data specific to its proposed service area. Funding for the CLEC
6 should be based on those CLEC and service area specifics, not upon the funding
7 available to the competing incumbent rural LEC in the larger study area. The
8 carriers should be competing for the customers, not the incumbent LEC's
9 universal service funding.

10 Issue 7

11 Q. In Issue 7.a., the question is posed: "[i]f current rates are set using existing
12 statutes, are rates considered affordable?" How do you respond?

13 A. The answer to this question is yes. I will repeat what the Citizens LECs said in
14 their August 21, 1997 comments in this proceeding. In those comments, we
15 stated,

16 The only case in which the TRA necessarily makes a finding that
17 ILEC rates are both just and reasonable and affordable is in the case of
18 price regulated ILECs. In all other cases in which findings are made that
19 ILEC rates are just and reasonable, the Citizens LECs believe it
20 appropriate, subject to a caveat, to conclude that affordability is a concept
21 subsumed in the finding of justness and reasonability. That caveat is that
22 affordability is a concept that should be deemed relevant only in
23 relationship to those services that fit within the definition of Universal
24 Services.
25
26

1 The Citizens LECs do want to add that the finding that rates are affordable does
2 not equate to a finding that those rates are at the maximum level that universal
3 service customers can afford. One of our major concerns in the evolution of
4 universal service is that the concept of affordability not be automatically equated
5 with below cost rates. We believe that, to a significant degree, universal service
6 funding should be steered to those who cannot afford cost based services or to
7 areas where the costs of service are so high that the general public cannot be
8 expected to absorb cost based rates. We are fearful that a lock step association of
9 the concept of affordability with artificially low rates will lead to a massively
10 expensive and burdensome universal service funding regime.

11
12 Q. Issue 7.b. asks, “[m]ust the TRA use Federal standards for affordability?” How
13 do you respond?

14 A. No. There is no requirement to adopt Federal standards regarding affordability of
15 basic services. Citizens believes the TRA is in the best position to determine
16 whether the rates for basic services in Tennessee are affordable for Tennessee
17 customers.

18 Issue 8

19 Q. Issue 8.a. asks the parties to “[d]efine implicit and explicit subsidies.” How do
20 you respond?

21 A. In our August 21 comments in this proceeding, we defined explicit an explicit
22 subsidy as, “a mechanism for the specific, predictable and sufficient support of

1 Universal Service, funded by equitable, nondiscriminatory contributions by all
2 intrastate telecommunications service providers.” Implicit subsidies are, on the
3 other hand, ones that do not qualify under our explicit subsidies definition. For
4 example, any funding mechanism that is not supported by nondiscriminatory
5 contributions by all telecommunications carriers is, by definition, an implicit
6 subsidy.

7
8 Q. Issue 8.b. asks, “[h]ow does the TRA determine implicit subsidies in current
9 rates?” How do you respond?

10 A. For rural incumbent LECs, which the Citizens LECs are, the existing implicit
11 subsidies were established using embedded cost methodologies. Therefore,
12 embedded costs should be the basis employed to identify the current level of
13 those subsidies. The required analysis should examine the cost of basic services
14 as they are presently tariffed and accounted for. Disaggregation into smaller
15 costing units would be burdensome and would raise the problematic issue of
16 allocations.

17
18 Citizens believes that other costing methodologies may have been applied when
19 the implicit subsidies of the non-rural companies were established. But, for the
20 rural LECs, embedded costs were the standard and should be utilized to identify
21 the implicit subsidies for those companies in this case.

Issue 9

Q. The parties to the Issues Stipulation could reach no agreement on any question listed under Issue 9. How do you respond to question 9.a., which asks, “[s]hould universal service cost studies be company-specific or generic?”

A. Because of the unique characteristics of rural telephone companies, universal service cost studies should, at least in the case of those carriers, be company-specific. There is probably no such thing as a “model” that can reasonably depict the cost characteristics of the full range of rural carriers.

Q. Question 9.b. asks, “[w]hat is the proper territorial scope of universal service rates?” What is the position of the Citizens LECs?

A. In rural areas, such as those served by the Citizens LECs, both cost studies and universal service rates should be developed on the basis of service areas no smaller than the wire center. Smaller areas are infeasible because the necessary data is not readily available.

Q. Question 9.c. asks, “[w]hat is the proper level of which deaveraging should be applied in the cost studies?” What is the position of the Citizens LECs?

A. Our answer to question 9.c. is the same as our answer to the previous question.

Q. Question 9.d. asks, “[s]hould rural and non-rural study areas be combined or separated in the cost studies?” What is the position of the Citizens LECs?

1 A. I am not sure that this question has any direct application to the Citizens LECs.
2 All of our study areas are rural in nature.

3
4 Q. Question 9.j. asks “[w]hich network elements should be included in the revenue
5 benchmark?” How do you respond to this question?

6 A. The historic rate levels of most LECs were established through the application of
7 value of service pricing principles. This practice served to keep prices for basic
8 exchange services at very low levels by consciously creating subsidy flows from
9 high rates for numerous other non-basic services throughout the LECs’ product
10 lines. One of the more daunting tasks associated with fostering fair competition
11 at the local exchange level is the rationalization of the embedded LECs’ rate
12 structures and the removal of the historical implicit subsidies. For this reason
13 Citizens does not agree with the creation and application of a revenue benchmark
14 in this case.

15
16 A benchmark based on traditional revenue flows would effectively continue
17 implicit subsidization of universal service by other LEC services, thereby making
18 the LEC’s prices less competitive in the marketplace and defeating one of the
19 principal purposes of USF reform. One of the primary thrusts of the revisions to
20 the Telecom Act was to direct the removal of implicit subsidies from LEC rate
21 structures and to replace them with explicit funding mechanisms. Therefore, the
22 TRA should not adopt a revenue benchmark. This proceeding should focus upon

1 the establishment of universal service funding, supported by all carriers through
2 contributions to an explicit funding mechanism.

3
4 Q. Question 9.k. asks, “[w]hat time period should be used to determine support
5 levels under the new universal service funding mechanism?” How do you
6 respond?

7 A. The Citizens LECs support the calculation of support levels based on the calendar
8 year immediately prior to the issuance of the TRA’s Order in Phase Two of this
9 proceeding. Numerous details required for the development of the data to support
10 the identification of existing subsidies and the underlying costs for basic services
11 will not be determined until that Order is issued.

12 Issue 15

13 Q. Should the access reform issues be incorporated into the schedule addressing
14 Phase II of the universal service proceeding?

15 A. The Citizens LECs believe that universal service funding implementation for
16 rural LECs and the process of access charge reform are inextricably bound.
17 Because intrastate access charges have historically borne a significant portion of
18 the implicit subsidy load required to support universal service, we must examine
19 and quantify the level of those subsidies in the context of this proceeding before
20 access charges are altered. The FCC has recognized that great care must be taken
21 in implementing a new universal service system for rural LECs and is moving
22 this issue on a different track than for non-rural LECs. Because we believe that

1 universal service reform is a condition precedent to access charge reform,
2 Citizens recommends that rural LEC access reform not be consolidated with
3 generic universal service issues. Instead, the TRA should conduct separate
4 proceedings, moving on the same track as the FCC's universal service
5 deliberations, for rural LEC universal service and access reform issues. Citizens
6 has no objection to formal or informal consolidation of the rural LEC proceedings
7 as long as they are guided by the principle that resolution of universal service
8 issues is a condition precedent to implementation of access reform for rural
9 LECs.

10
11 Q. Does this conclude your testimony?

12 A. Yes, it does.